

Message Text

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UNCLAS SECTION 1 OF 2 MONTREAL 1717

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SUBJ: QUEBEC'S ECONOMY - A FOREST FULL OF BEARS

1. SUMMARY: A SERIES OF ECONOMIC REPORTS HAVE RECENTLY DRAWN ATTENTION TO PROBLEMS IN QUEBEC'S ECONOMY. AMONG DISCOURAGING SIGNS ARE ESTIMATES THAT GROWTH RATES FOR QUEBEC IN 1975 & 1976 WILL FALL BELOW THOSE FOR ONTARIO AND FOR CANADA AS WHOLE. MOREOVER, RELATIVE TO OTHER PROVINCES, QUEBEC HAS LOW POPULATION GROWTH RATE, LARGE PROVINCIAL BUDGET DIFICIT, HIGH TAXES, AND HIGH UNEMPLOYMENT RATE IN QUEBEC REACHED RECORD 10.1 O/O IN OCTOBER). PROGRESS IN PRIVATE SECTOR HAS BEEN HAMPERED BY CONFUSION OVER GOVERNMENT'S POLITICAL-ECONOMIC POLICIES AND BY UNFAVORABLE LABOR SITUATION IN QUEBEC. WHILE POLITICAL PARTIES HAVE STRESSED OTHER ISSUES IN ISSUES IN CAMPAIGN, SUCH AS LANGUAGE POLICY, GOVERNMENT CORRUPTION, AND SEPARATION, STATE OF QUEBEC'S ECONOMY WILL BE HIGHLY SIGNIFICANT CONSIDERATION FOR MOST VOTERS ON NOVEMBER 15. NO MATTER WHO WINS, MAJOR TASK OF PROVINCIAL GOVERNMENT WILL BE REVITALIZATION OF QUEBEC'S SAGGING ECONOMY, AND RESTORATION OF CONFIDENCE. TASK LIKELY TO BE MORE UNCLASSIFIED

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DIFFICULT UNDER PQ GOVERNMENT WHICH WOULD MOST PROBABLY LEAD TO

SEVERAL YEARS OF INDECISION, PENDING DEVELOPMENT OF NEW POLICIES AND DECISION OF SEPARATION. END SUMMARY.

2. DURING LAST TWO WEEKS, LOCAL NEWSPAPERS HAVE CARRIED NUMBER OF ARTICLES CONCERNING STRUCTURAL WEAKNESS OF QUEBEC ECONOMY AND ITS POOR EXPECTATIONS. MOST RECENT ARTICLES WERE BASED ON REPORT RELEASED LAST WEEK BY CONFERENCE BOARD, WHICH FORECAST THAT FOR BOTH CURRENT AND COMING YEAR QUEBEC WOULD HAVE GROWTH RATES BELOW ONTARIO AND BELOW CANADIAN AVERAGE. FOR 1977, CONFERENCE BOARD FORECAST THAT REAL GROWTH IN QUEBEC WOULD APPROXIMATE 4.2 PERCENT AND THAT UNEMPLOYMENT WOULD AVERAGE 9.2 PERCENT. THIS COMPARES WITH 1976 PROJECTED PERFORMANCE OF 5.1 O/O REAL GROWTH RATE AND AN UNEMPLOYMENT RATE OF 8.5 O/O. ONLY MAJOR QUEBEC INDUSTRY THAT CONFERENCE BOARD EXPECTED TO CONTINUE GROWING AT RELATIVELY RAPID RATE NEXT YEAR WAS MINING INDUSTRY, WHICH HAS BEEN SOURCE OF STRENGTH IN ECONOMY THIS YEAR.

3. CONFERENCE BOARD REPORT FOLLOWS REPORT ISSUED BY ROYAL BANK LATE LAST MONTH (MONTREAL 1599) AND SUBSEQUENT REPORT BY BANK OF NOVA SCOTIA, BOTH OF WHICH SAW QUEBEC ECONOMY PERFORMING LESS WELL THAN NATIONAL AVERAGE. WHILE BANK REPORTS PROVIDED GENERAL ASSESSMENT OF ECONOMY'S MALAISE, OTHER RECENT ARTICLES HAVE ZEROED IN ON SPECIFIC PROBLEMS. FIRST OF SERIES WAS LA PRESSE ARTICLE POINTING OUT THAT OUT OF INCREASE OF 39,000 IN NUMBER OF UNEMPLOYED IN CANADA DURING THIS YEAR, FULLY 38,000 WERE QUEBECKERS (MONTREAL 1547). THIS WAS FOLLOWED BY ARTICLE ON POPULATION TRENDS, SHOWING THAT SINCE 1967, SOME 317,000 QUEBECKERS HAD EMIGRATED, AN AVERAGE OF APPROXIMATELY 35,000 PER YEAR. ALTHOUGH QUEBEC'S POPULATION OVER SAME PERIOD INCREASED BY 398,000, MOST OF THIS GROWTH (259,000) WAS DUE TO IMMIGRATION. ON BALANCE, RATE OF POPULATION GROWTH IN OTHER PROVINCES OF CANADA WAS TWICE AS FAST AS THAT IN QUEBEC. AS RESULT, NUMBER OF QUEBECKERS COMPARED TO NUMBER OF RESIDENTS OF OTHER PROVINCES HAS FALLEN FROM 40.4 O/O TO 37.1 O/O IN NINE YEARS; AND PROPORTION OF QUEBECKERS IN TOTAL CANADIAN POPULATION HAS DECLINED FROM 28.8 O/O TO 27 O/O OVER SAME PERIOD.

4. BEYOND ECONOMIC SIGNIFICANCE, TREND IN DEMOGRAPHIC FIGURES ALSO HAS IMPORTANT IMPLICATIONS FOR FRENCH SPEAKING CULTURE IN QUEBEC. WITH HEAVY DEPENDENCE ON IMMIGRATION TO SUSTAIN PO-
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PULATION GROWTH, THERE IS FEAR THAT PRIMACY OF FRENCH LANGUAGE IS SUFFERING, AS ESTIMATES INDICATE THAT NEARLY NINETY PERCENT OF ALL IMMIGRANTS OPT FOR ENGLISH LANGUAGE. QUEBEC'S LANGUAGE POLICY NOW, HOWEVER, PRECLUDES IMMIGRANTS WHOSE NATIVE LANGUAGE IS NOT ENGLISH FROM ENROLLING CHILDREN IN ENGLISH SPEAKING SCHOOLS, AND CONCERN OVER PROBLEMS ASSOCIATED WITH LANGUAGE POLICY HAS LED TO DECLINE IN IMMIGRATION TO PROVINCE. WHILE THIS MAY SATISFY THOSE WHO ARE WORRIED ABOUT INCREASING PROPOS-

TION OF NON-FRENCH SPEAKING RESIDENTS IN QUEBEC, IT WILL AT SAME TIME FURTHER ENFEEBLE QUEBEC'S RATE OF POPULATION INCREASE.

5. AS IF UNEMPLOYMENT, A FLACCID ECONOMY, AND LAGGING POPULATION GROWTH WERE NOT ENOUGH TO WORRY LOCAL READERS, PRESS HAS ALSO GIVEN PROMINENT COVERAGE TO QUEBEC'S BUDGET DEFICITS AND DEBT. ATTENTION WAS DIRECTED TO DEBT ISSUE WHEN PARTI QUEBECOIS LATE IN OCTOBER ANNOUNCED THAT IT HAD INFORMATION INDICATING THAT PROVINCIAL DEFICIT WOULD EXCEED DOLS 1.2 BILLION IN CURRENT FISCAL YEAR, DOUBLE THE DOLS 630 MILLION DEFICIT FORECAST BY BOURASSA ADMINISTRATION WHEN PROVINCIAL BUDGET WAS ANNOUNCED LAST SPRING. SUBSEQUENTLY, FINANCE MINISTER RAYMOND GARNEAU ACKNOWLEDGED THAT QUEBEC'S FINANCIAL SITUATION IS SERIOUS AND THAT DEFICIT COULD REACH RECORD DOLS 1 BILLION FOR CURRENT FISCAL YEAR. AT ABOUT SAME TIME, ROYAL BANK OF CANADA RELEASED RESULTS OF STUDY THAT IT HAD MADE ON PROVINCIAL FINANCES. IT CAME AS SURPRISE TO NO ONE THAT QUEBEC AGAIN APPEARED TO FARE WORSE THAN MOST OF THE OTHER PROVINCES. STATISTICAL COMPARISON THAT ATTRACTED MOST ATTENTION WAS ONE WHICH SHOWED THAT WHILE QUEBEC'S POPULATION ACCOUNTED FOR ONLY 27 O/O OF CANADA'S POPULATION, ITS DEFICIT FOR CURRENT FISCAL YEAR ACCOUNTED FOR 41 O/O OF TOTAL DEFICITS FOR ALL CANADIAN PROVINCES. ON POSITIVE SIDE, ONE SHOULD NOTE THAT ROYAL BANK STUDY ALSO POINTED OUT THAT DESPITE SIZE OF DEFICIT, QUEBEC'S GROSS DEBT CHARGES AS A PERCENTAGE OF GROSS GENERAL REVENUES IS ABOUT 4.6 O/O, LOWER THAN MOST OTHER PROVINCES. (NATIONAL AVERAGE IS REPORTED TO BE 5.5 O/O, WITH NEWFOUNDLAND LEADING PROVINCES AT 12.5 O/O FOLLOWED BY NOVA SCOTIA AT 9.2 O/O AND ONTARIO AT 7.8 O/O).

6. AND FINALLY, LA PRESSE LAST WEEKEND CARRIED FRONT PAGE STORY REPORTING THAT QUEBECKERS ARE NOW TAXED MORE THAN OTHER CANADIANS. AFTER AN EXAMINATION OF SOME 320 CASES THROUGHOUT CANADA, PAPER REACHED CONCLUSION THAT QUEBECKERS ARE NOW TAXED ON AVERAGE UNCLASSIFIED

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ABOUT 7 O/O MORE THAN OTHER CANADIANS. OVER COURSE OF NEXT YEAR, DISCREPANCY WITH REST OF CANADA MAY RISE TO AS MUCH AS 13 O/O. PEOPLE BEARING BRUNT OF DISCREPANCY ACCORDING TO LA PRESSE ARE THOSE EARNING LESS THAN DOLS 10,000. HIGHER TAX BURDEN IN QUEBEC ARISES PRINCIPALLY FROM FACT THAT QUEBEC IS ONLY PROVINCE THAT DOES NOT EXPRESS ITS INCOME TAX RATE AS A SINGLE PERCENTAGE OF INDIVIDUAL FEDERAL TAX. THUS, SHOULD FEDERAL GOVERNMENT CUT TAXES NEXT YEAR, QUEBECKERS WOULD END UP PAYING EVEN HIGHER PERCENTAGE OF TAXES THAN OTHER CANADIANS. A SIGNIFICANT WATERSHED OCCURRED LAST YEAR, WHEN, FOR FIRST TIME, QUEBECKERS ENDED UP PAYING MORE TAXES TO PROVINCE THAN THEY PAID TO OTTAWA.

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7. PREDOMINANCE OF DOOMSAYERS EVIDENTLY GOT TO CLAUDE RYAN OF LE DEVOIR WHO DID LONG ARTICLE ATTEMPTING TO SHOW THAT THINGS REALLY WEREN'T SO BAD IN QUEBEC. AFTER ALL, BETWEEN 1970-1975 QUEBEC'S GROSS PROVINCIAL PRODUCT HAD GROWN BY 83 O/O COMPARED TO 80.5 O/O FOR ONTARIO. (ONTARIO'S PROVINCIAL PRODUCT, HOWEVER, WAS NEARLY TWICE AS LARGE AS QUEBEC'S AND INCREASE IN CANADA'S GROSS NATIONAL PRODUCT OVER SAME PERIOD AMOUNTED TO 88 O/O.) SIMILARLY, OVER THE SAME PERIOD SAID RYAN, PERCAPITA INCOME IN QUEBEC HAD GROWN AT A FASTER RATE THAN THAT IN ONTARIO AND INDEED THAT FOR CANADA AS A WHOLE. WITH REGARD TO LABOR, UNEMPLOYMENT IN QUEBEC DURING 1970-1975 PERIOD ROSE AT A SLOWER RATE THAN IN REST OF CANADA. UNEMPLOYMENT DURING PERIOD ROSE BY 74 O/O IN ONTARIO, AND BY 45 O/O FOR CANADA AS A WHOLE, WHILE INCREASE WAS ONLY 35 O/O IN QUEBEC. THUS WITH EXCEPTION OF THE PRAIRIE PROVINCES, QUEBEC EXPERIENCED LOWER RATE OF INCREASE IN UNEMPLOYMENT OVER THE FIVE YEAR PERIOD, AND WITH UNEMPLOYMENT GROWING FASTER IN THE OTHER PROVINCES, QUEBEC'S PROPORTION OF THE UNEMPLOYED IN CANADA FELL FROM 33 O/ TO 31 O/O. EVEN IN THE INVESTMENT SECTOR, RYAN'S ANALYSIS SHOWS QUEBEC FARING WELL. WHEREAS IN TEN YEARS PRECEDING 1970, QUEBEC HAD LAGGED BEHIND

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OTHER PROVINCES, IT MADE "SPECTACULAR" ADVANCES BEGINNING IN 1971, AND FOR THE FOLLOWING FIVE YEARS, PERCENTAGE INCREASES IN INVESTMENT IN QUEBEC OUTPACED PERCENTAGE GAINS FOR WHOLE OF CANADA.

8. FINALLY, RYAN ARGUES THAT WHILE IT IS TRUE THAT QUEBEC'S DEBT HAS SHOWN RAPID INCREASE, OTHER PROVINCES SHOWED MORE RAPID INCREASES DURING 1970-1975 PERIOD AND THAT PERCENTAGE INCREASE (65 O/O) IN QUEBEC'S DEBT WAS IN FACT LESS THAN INCREASE OF 80 O/O FOR CANADA AS WHOLE. MOREOVER, DEBT SERVICE EXPENDITURES AS PROPORTION OF BUDGETARY EXPENDITURES WAS ONLY 4.1 O/O IN QUEBEC, AS COMPARED TO 7.3 O/O IN ONTARIO AND 5.4 O/O IN CANADA AS A WHOLE.

9. COMMENT: THE PRESS ARTICLES DO A PRETTY GOOD JOB OF REFLECTING BOTH THE CONFUSION AND THE GENERAL ATTITUDE ABOUT QUEBEC'S ECONOMY. CLAUDE RYAN'S DEFENSE NOTWITHSTANDING, THERE IS A GENERAL FEELING THAT THE ECONOMY IS IN STASIS, WITH MAJOR EFFORTS REQUIRED NOT TO KEEP IT MOVING FORWARD, BUT SIMPLY TO KEEP IT FROM LOSING GROUND. EVEN WITH A RATE OF POPULATION INCREASE THAT IS LESS THAN THE AVERAGE FOR CANADA, JOB OPPORTUNITIES ARE NOT BEING CREATED FAST ENOUGH TO ACCOMMODATE THE INCREASE IN THE LABOR FORCE. WHILE IT IS TRUE THAT SOME OF THE MEASURES USED TO ASSESS DEBT BURDEN DO NOT PRESENTLY CAUSE CONCERN, IT MAY ALSO BE TRUE THAT THERE IS CAUSE FOR CONCERN IN THE FUTURE. THE LEVEL OF QUEBEC'S DEBT HAS RISEN RAPIDLY IN THE LAST FEW YEARS; THERE IS LITTLE ROOM FOR AN INCREASE IN TAXES, WHICH ARE NOW THE HIGHEST IN CANADA; AND THE TORPOR, OF THE ECONOMY, BURDENED WITH UNCERTAINTY AND A KIND OF GARRISON MENTALITY, MILITATES AGAINST ANY MAJOR INCREASE IN THE PROVINCES' WEALTH IN THE FORESEEABLE FUTURE.

10. WHAT IS PERHAPS MOST BOTHERSOME ABOUT QUEBEC'S ECONOMIC SITUATION IS THAT MUCH OF THE VIGOR IN THE PAST HAS BEEN DIRECTLY DUE TO ACTIVITIES OF THE PUBLIC SECTOR. WHEN RYAN SPEAKS ABOUT QUEBEC'S SATISFACTORY PERFORMANCE FROM 1970-1975, IT IS IMPORTANT TO NOTE THAT DURING THE LATTER PART OF THIS PERIOD, FULLY 50 O/O OF CONSTRUCTION EXPENDITURES WERE ASSOCIATED WITH PUBLIC PROJECTS, SUCH AS JAMES BAY, THE OLYMPICS, AND MONTREAL'S METRO. NOT UNEXPECTEDLY, CONSTRUCTION NOW PLAYS A MORE PREDOMINANT ROLE IN QUEBEC'S ECONOMY, HAVING RISEN DURING THE LAST FIVE YEARS AS A PROPORTION OF QUEBEC'S TOTAL OUTPUT. ANY
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SLUMP IN CONSTRUCTION WILL THEREFORE HAVE A GREATER IMPACT ON THE TOTAL ECONOMY, AND MONTREAL NOW HAS A SURPLUS OF BOTH HOTEL AND OFFICE SPACE AND THE OLYMPICS ARE OVER. UNFORTUNATELY, EXPENDITURES FOR MANY TYPES OF PUBLIC WORKS DO NOT CONTINUE TO PROVIDE EMPLOYMENT ONCE THE WORK IS FINISHED.

11. SIMILARLY, WHILE IT IS ALSO TRUE THAT PER CAPITA INCOME IN QUEBEC HAS SHOWN A FAVORABLE PERFORMANCE RELATIVE TO REST OF CANADA, IT IS ALSO TRUE THAT TRANSFER PAYMENTS, SUCH AS UNEMPLOYMENT INSURANCE, AND THE LAGGING POPULATION GROWTH IN QUEBEC, HAVE BEEN IMPORTANT FACTORS IN THIS PERFORMANCE. AND AS ONE ECONOMIST HAS POINTED OUT, THE FACT THAT UNEMPLOYMENT RATES MAY HAVE GROWN FASTER IN OTHER PARTS OF CANADA MAY BE DUE TO THE MOVEMENT OF LABORERS TO ECONOMICALLY VIGOROUS AREAS OF CANADA, RATHER THAN TO ANY SUCCESS OF QUEBEC'S ECONOMY IN PROVIDING JOB OPPORTUNITIES.

12. DESPITE SOME OMINOUS ECONOMIC SIGNS FOR THE FUTURE, NO ONE SEEMS TO BE ADDRESSING THE STRUCTURAL ISSUES DURING THE CURRENT CAMPAIGN FOR THE ELECTIONS NOVEMBER 15. ECONOMIC ISSUES DO ARISE, AS WHEN THE LIBERALS TALK ABOUT THE ECONOMIC COSTS OF A PQ VICTORY, WHEN THE PQ TALKS ABOUT THE LIBERAL'S BUDGET DEFICITS, AND WHEN THE UN TALKS ABOUT AID TO THE SMALL FARMER AND BUSINESSMAN. BUT THE STRUCTURAL PROBLEMS ARE IN GENERAL AVOIDED, AS EITHER BEING INCOMPREHENSIBLE, INELUCTABLE, OR PREMATURE. WHAT IS CERTAIN IS THAT SOMETHING WILL HAVE TO BE DONE AFTER THE ELECTIONS TO REVITALIZE QUEBEC'S ECONOMY AND RESTORE CONFIDENCE. WE EXPECT THAT TASK WILL BE MUCH MORE DIFFICULT UNDER A PQ GOVERNMENT, AS ECONOMY WAITS TO SEE WHAT COURSE QUEBEC WOULD FOLLOW WITH REGARD TO SEPARATION.
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